

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-10 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 DRC-01

AGR-20 PA-04 PRS-01 USIA-15 AF-10 FRB-02 XMB-07 /223 W  
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P R 070544Z MARF74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 5660

INFO AMEMBASSY ANKARA

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDA

AMEMBASSY KABUL

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

USINT BAGHDAD BY POUCH

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E.O. 11652: NA

TAGS: ENRG ETRD IR

SUBJ: TRADE AND INVESTMENT OPPORTUNITIES ARISING FROM  
ENERGY SITUATION

REF: STATE 040537

1. SUMMARY: AS DEPARTMENT AWARE, OF PERSIAN GULF OIL EXPORTING  
COUNTRIES PLAN HAS MOST AMBITIOUS PLANS FOR AND CAPABILITY OF  
USING BULK OF SHARPLY INCREASED EXPORT EARNINGS FOR ECONOMIC  
DEVELOPMENT. OPPORTUNITES FY U.S.MG EXPORTS OF SOPHISTICATED  
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PLANT AND EQUIPMENT SHOULD CONTINUE TO RISE OVER NEXT FEW YEARS,

AS IRANIAN EFFORT TO DEVELOP MORE INDUSTRIALIZED AND DIVERSIFIED ECONOMY GAINS MOMENTUM. WITH CONTINUING MILITARY BUILDUP, HOWEVER, IRANIAN PURCHASE OF AMERICAN MILITARY AND DEFENSE RELATED EQUIPMENT LIKELY WILL REMAIN BIGGEST SINGLE IMPORT CATEGORY FROM U.S. OVER NEXT SEVERAL YEARS. INFLATIONARY PRESSURES AND BOTTLENECKS IN ECONOMY WILL PREVENT IRAN FROM USING ALL OF OIL REVENUE WINDFALL FOR IMPORTS AND ECONOMIC DEVELOPMENT. GOI STILL IS GROPING FOR BEST WAYS OF INVESTING SURPLUS ABROAD, AND U.S. SHARE SHOULD BE CONSIDERABLE. END SUMMARY.

2. BACKGROUND: GOI CURRENTLY IS PLANNING FOR FOREIGN EXCHANGE EARNINGS FROM OIL EXPORTS DURING IRANIAN YEAR 1353 (BEGINNING MARCH 21, 1974) OF \$16 BILLION, OR MORE THAN TRIPLE THE AMOUNT IN YEAR ENDING MARCH 20. THOUGH THIS FIGURE MAY TURN OUT TO BE SOMEWHAT OPTIMISTIC, ESPECIALLY IF SUFFICIENT CONSUMER RESISTANCE TO PRICE INCREASES SETS IN, COUNTRY'S BALANCE OF PAYMENTS SURPLUS OVER NEXT FEW YEARS IS ALMOST CERTAIN TO BE SUBSTANTIAL.

3. IRAN, WHICH IS JUST COMPLETING FIRST YEAR OF FIFTH DEVELOPMENT PLAN, HAS LONG HAD AMBITIOUS SCHEMES FOR USING ITS IMPORT EARNINGS FROM OIL REVENUES FOR ECONOMIC DEVELOPMENT. PRIOR TO DECEMBER 1973 PRICE INCREASES, EFFECTIVE UTILIZATION OF OIL REVENUES PRESENTED NO PROBLEM. WHILE IRAN DID NOT SUFFER FROM FOREIGN EXCHANGE CONSTRAINT PROBLEMS TO EXTENT OF MOST DEVELOPING COUNTRIES, GOI CONSISTENTLY HAD MORE AMBITIOUS PLANS FOR DEVELOPMENT EXPENDITURE AND DEFENSE BUILDUP THAN EXPORT EARNINGS FUNDED COMPLETELY.

4. SITUATION HAS CHANGED MARKEDLY. WHILE SPENDING EXPECTED OIL REVENUES IS NOT BEYOND INGENUITY OF GOI MILITARY AND CIVILIAN PLANNERS, COOLER HEADS REALIZE THAT WITH PRICES RISING AT LEAST AT ANNUAL RATE OF 15 PERCENT, BOW MUST BE MADE TO DAMPENING INFLATIONARY PRESSURES. MOREOVER, SERIOUS INFRASTRUCTURE BOTTLENECKS IN ECONOMY SUCH AS INADEQUATE PORT FACILITIES, LIMITED INTERNAL TRANSPORTATION NETWORK, INSUFFICIENT SKILLED MANPOWER, AND UNDERDEVELOPED IRRIGATION SYSTEM LIMIT AMOUNT IRANIAN IMPORTS CAN BE INCREASED AND SPEED AT WHICH COUNTRY CAN PROGRESS TO DESIRED AGRICULTURAL SELF SUFFICIENCY.

5. OPPORTUNITIES FOR U.S. EXPORTS/INVESTMENT IN IRANIAN LIMITED OFFICIAL USE

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DEVELOPMENT PROGRAM:

A) OIL AND PETROCHEMICALS - IRANIAN PLANNERS AND INDUSTRIALISTS WILL CONTINUE CONCENTRATION ON BUILDING UP DOMESTIC OIL REFINING CAPACITY AND PETROCHEMICALS INDUSTRY. WHILE FOREIGN EQUITY INVESTMENT IN BOTH PETROCHEMICALS PRODUCTION AND EXPORT REFINERIES SEEMS WELCOME, IRAN RECENTLY SEEMS MORE INCLINED TO LIMIT FOREIGN INVOLVEMENT IN DOMESTIC OIL REFINERIES TO TECHNICAL COLLABORATION

AGREEMENTS.

B) IRON AND STEEL, OTHER MINERALS - SHAH HAS ANNOUNCED GOAL OF INCREASING IRANIAN STEEL PRODUCTION TO 15 MILLION MT ANNUALLY BY END OF SIXTH DEVELOPMENT PLAN IN MARCH 1983. AGREEMENTS FOR TWO OF THREE NEW GAS REDUCTION SPONGE IRON PLANTS PLANNED (CONTRACTS WITH GERMAN FIRM, KORF, AND SWINDELL-DRESSLER OF PITTSBURGH) HAVE BEEN SIGNED. EFFORTS TO STEP UP EXPLORATION FOR AND EXPLOITATION OF MOSTLY UNTAPPED NON-OIL MINERAL WEALTH WILL CONTINUE.

C) AGRO-BUSINESS - INDUSTRIES BASED ON AGRO-BUSINESS SEEM LIKELY TO EXPAND. SUCCESSFUL SUGAR AND PAPER FACTORIES IN KHUZESTAN ARE TO BE ENLARGED AND SECOND SUGAR CANE PLANTATION DEVELOPED. WOOD AND PULP OF CASPIAN AREA WILL BE EXPLOITED. EXTENSIVE EXPANSION OF DAIRY AND MEAT PRODUCTION CAPABILITY ALREADY IS UNDERWAY, AND WORLD BANK PARTICIPATION IS EXPECTED.

D) DEFENSE EQUIPMENT - AS IRAN'S MILITARY BUILDUP CONTINUES, IMPORTS OF DEFENSE EQUIPMENT FROM THE U.S. AS COUNTRY'S CHIEF SUPPLIER PROBABLY WILL BE BIGGEST CATEGORY OF AMERICAN PURCHASES FOR SOME TIME TO COME. RECENTLY, IRANIAN MILITARY HAS EXPRESSED STRONG BUT RATHER IMPRECISE INTEREST IN IMPORTING ENTIRE PLANTS OF DEFENSE RELATED INDUSTRIES FROM ABROAD TO BUILD UP IRANIAN CAPABILITY OF PRODUCING ITS OWN MILITARY ARSENAL AND IN INVESTING IN DEFENSE TECHNOLOGY PROJECTS IN THE U.S. IRANIAN OFFICIALS CURRENTLY ARE EXPLORING THE LEGAL, FINANCIAL, AND POLICY ASPECTS OF THESE IDEAS. WHILE THERE UNDOUBTEDLY IS SOME POTENTIAL FOR EXPANDING IRAN'S MANUFACTURING CAPABILITY OF DEFENSE EQUIPMENT, LACK OF TECHNICAL KNOW-HOW AND SHORTAGE OF TRAINED PERSONNEL AT PRESENT TIME SEVERELY LIMIT COUNTRY'S ABILITY TO START PRODUCING SOPHISTICATED MILITARY EQUIPMENT WHICH CURRENTLY IS BEING IMPORTED.

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AGR-20 PA-04 PRS-01 USIA-15 AF-10 XMB-07 FRB-02 /223 W

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P R 070544Z MAR 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 5661

INFO AMEMBASSY ANKARA

AMEMBASSY BEIRUT

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E) ECONOMIC INFRASTRUCTURE - IRAN'S TRANSPORTATION SYSTEM LAGS FAR BEHIND THE NEEDS OF A MODERNIZING ECONOMY. DEVELOPMENT OF PERSIAN GULF PORTS AND ROAD AND RAIL TRANSPORTATION WILL HAVE HIGH PRIORITY. NEW INTERNATIONAL AIRPORTS ARE PLANNED OR UNDER CONSTRUCTION AT TEHRAN, ISFAHAN AND AHWAZ. CANAL IRRIGATION IS FAR BEHIND AVAILABILITY OF WATER FROM HYDROELECTRIC PROJECTS ALREADY COMPLETED, AND CONSIDERABLE POTENTIAL EXISTS FOR TUBE-WELL DEVELOPMENT. THOUGH SIZEABLE UNEXPLOITED HYDROELECTRIC POTENTIAL REMAINS, AND THERE IS LITTLE CAUSE TO WORRY ABOUT OIL OR NATURAL GAS SUPPLIES FOR GENERATION OF THERMAL POWER IN FORE-SEEABLE FUTURE, THERE NEVERTHELESS ARE PLANS FOR THE EARLY CON-LIMITED OFFICIAL USE

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STRUCTION OF FIRST NUCLEAR POWER GENERATION PLANTS.

E) SOCIAL INFRASTRUCTURE - ON FEBRUARY 23, SHAH ANNOUNCED PROGRAM OF UNIVERSAL FREE EDUCATION FOR FIRST EIGHT YEARS OF SCHOOL, WHICH WILL MEAN INCREASED OPPORTUNITES FOR EXPORTERS OF EDUCATIONAL EQUIPMENT. IRAN WILL CONTINUE TO BE ATTRACTIVE MARKET FOR AMERICAN MEDICAL EQUIPMENT AS EXPANSION OF COUNTRY'S HEALTH SERVICES CONTINUES. SPEEDED UP CONSTRUCTION OF BADLY NEEDED NEW HOUSING, AS WELL AS MORE SCHOOL BUILDINGS AND HOSPITALS

AND CLINICS, WILL MEAN RISING DEMAND FOR IMPORTS OF HEAVY CONSTRUCTION EQUIPMENT AND BUILDING MATERIALS.

6. GENERAL COMMENTS: PROSPECTIVE FOREIGN SUPPLIERS OF PLANT AND EQUIPMENT AND/OR TECHNICAL KNOW-HOW FOR ALMOST ANY NEW INDUSTRY IN IRAN WILL BE JUDGED TO GREAT EXTENT ON CAPABILITY OF PROVIDING (1) QUALIFIED U.S. TECHNICIANS AT REASONABLE COST TO STAFF MANUFACTURING FACILITIES DURING INITIAL PHASES, AND (2) TRAINING FACILITIES FOR SKILLED LABOR AND MID-LEVEL MANAGEMENT PERSONNEL. DOMESTIC SHORTAGE OF TECHNICAL AND MANAGERIAL SKILLS SEEMS LIKELY TO REMAIN ONE OF MOST TROUBLESOME BARRIERS TO MORE SPEEDY IRANIAN INDUSTRIALIZATION FOR SOME TIME TO COME.

7. EVEN WITH CURRENT IMPRESSIVE ECONOMIC GROWTH RATE, RAPID INCREASE IN POPULATION ASSURES UNEMPLOYMENT PROBLEM WILL REMAIN FOR SOME TIME TO COME. ESPECIALLY AS OIL EXPORT EARNINGS FINALLY BEGIN TO LEVEL OFF AND THEN TO DECLINE AFTER SEVERAL YEARS, IRAN PROBABLY WILL NEED TO CONCENTRATE ON MORE LABOR INTENSIVE EXPORT ORIENTED CONSUMER GOODS INDUSTRIES FOLLOWING PATTERN OF MORE SUCCESSFUL FAR EASTERN DEVELOPING COUNTRIES. WHILE DWARFED BY PETROLEUM SALES ABROAD, IRANIAN NON-OIL EXPORTS HAVE SHOWN RECENT QUITE RESPECTABLE PERFORMANCE (25 PERCENT INCREASE IN IRANIAN YEAR ENDING MARCH 20, 1973 AND 33 PERCENT FORECAST FOR THIS YEAR). CONSUMER GOODS SEEM TO COMPETE BEST IN EASTERN EUROPEAN MARKETS, BUT IRANIANS HAVE HIGH HOPES OF SIGNIFICANT INCREASES IN SALES ELSEWHERE.

8. IRANIAN INVESTMENT ABROAD: IRANIANS STILL ARE GROPING FOR BEST WAYS OF INVESTING SURPLUS FOREIGN EXCHANGE EARNINGS WHICH WILL NOT BE SPENT EITHER ON MORE IMPORTS OR GO INTO INCREASED CENTRAL BANK RESERVES. IN ADDITION TO RECENTLY ANNOUNCED INTENTION TO MAKE AVAILABLE \$1 BILLION DURING YEAR TO IMF/IBRD, LIMITED OFFICIAL USE

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IRANIANS IN 1353 MAY HAVE \$3-\$4 BILLION AVAILABLE IN SURPLUS FOREIGN EXCHANGE EARNINGS FOR INVESTMENT ABROAD. "DOWNSTREAM" INVESTMENTS (SUCH AS THAT WORKED OUT WITH ASHLAND OIL OF USA) IN PETROLEUM, PETROCHEMICAL AND RELATED INDUSTRIES NOW APPEAR LESS LIKELY TO ATTRACT IRANIAN ATTENTION. IRANIAN OFFICIALS HAVE NOTED THEIR INTEREST IN DIRECTING COUNTRY'S OVERSEAS INVESTMENTS TOWARDS INDUSTRIES WHICH WOULD ASSURE SUPPLIES OF SCARCE INDUSTRIAL RAW MATERIALS SUCH AS SYNTHETIC FIBERS AND RUBBER AND SOME TYPES OF STEEL. BECAUSE OF OFTEN EXPRESSED OFFICIAL GOI CONCERN OVER RISING WORLD MARKET PRICES OF IMPORTED FOOD, IRANIANS ALSO HAVE IN MIND INVESTING IN AGRICULTURE AND RELATED INDUSTRIES ABROAD AS WELL AS INCREASING OWN OUTPUT TO REACH GOAL OF AGRICULTURAL SELF SUFFICIENCY.

9. AT PRESENT TIME IRANIANS SEEM TO BE THINKING MORE IN TERMS OF EQUITY THAN PORTFOLIO INVESTMENTS ABROAD. THEY APPEAR TO FEEL

LARGE MINORITY OR CONTROLLING SHARE IN FOREIGN BUSINESSES CAN BOTH ENHANCE COUNTRY'S INTERNATIONAL PRESTIGE AND WORK TO ITS ECONOMIC BENEFIT. WHILE QUITE CONCERNED OVER BOTH DOMESTIC AND WORLDWIDE INFLATION, IRANIANS SEEM TO HAVE MORE FAITH IN LONG RANGE OUTLOOK FOR U.S. DOLLAR THAN ANY OTHER CURRENCY, CONSIDERABLE ADMIRATION FOR AMERICAN EXPERTISE AND OVERALL OPTIMISM OVER PROSPECTS FOR U.S. ECONOMY. EMBASSY BELIEVES THAT U.S. EXCELLENT PROSPECTS FOR ATTRACTING A MAJOR SHARE OF IRANIAN INVESTMENT ABROAD.

10. CONCLUSION: IRAN WILL BE A GROWING MARKET FOR U.S. EXPORTS. INDEED, IRANIAN PURCHASES FROM U.S. SEEM MORE LIKELY TO BE LIMITED BY AMERICAN EXPORT SHORTAGES OF MANY WANTED ITEMS THAN BY ANY IRANIAN FINANCIAL CONSTRAINTS OR LACK OF INTEREST IN IMPORTING. WITH AN EYE TOWARDS THE GROWTH POTENTIAL OF THE IRANIAN MARKET, AMERICAN EXPORTERS SHOULD BE ENCOURAGED TO SUPPLY AS MUCH OF THE COUNTRY'S IMPORT DEMANDS AS POSSIBLE. THE STEADILY INCREASING STREAM OF AMERICAN BUSINESSMEN COMING TO IRAN INDICATES NO LACK OF U.S. INTEREST IN STEPPING UP THE ALREADY RAPIDLY RISING AMERICAN INVESTMENT IN THE COUNTRY. ON THE U.S. SIDE, EFFORTS SHOULD BE MADE TO DIRECT IRANIAN INVESTMENT INTO REASONABLY PROFITABLE INDUSTRIES IN WHICH U.S. STRATEGIC AND SECURITY INTERESTS ARE NOT PARAMOUNT.

11. EMBASSY RECOMMENDS DECLASSIFYING THIS MESSAGE UPON RECEIPT, LIMITED OFFICIAL USE

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UNLESS DEPARTMENT OBJECTS.  
LEHFELDT

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## Message Attributes

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**Copy:** SINGLE  
**Draft Date:** 07 MAR 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
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